

## Message Text

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15

ACTION EB-06

INFO OCT-01 ARA-06 IO-04 ISO-00 SEC-01 AID-05 CIAE-00

COME-00 FRB-01 INR-05 NSAE-00 RSC-01 TRSE-00 XMB-02

OPIC-03 SP-02 CIEP-01 LAB-01 SIL-01 OMB-01 NSC-05

SS-15 STR-01 CEA-01 L-01 H-01 PA-01 PRS-01 USIA-06

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FM AMEMBASSY MEXICO

TO SECSTATE WASHDC 4418

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EO 11652: N/A

TAGS: EFIN, EIND, ETEL, ETRD, BMEP, MX

SUBJECT: MEXICO NATIONALIZES ITT SUBSIDIARY INDETEL

PASS COMMERCE/MAJOR EXPORT PROJECT DIVISION

1. BEGIN UNCLASSIFIED. SUMMARY: ITT'S MEXICAN SUBSIDIARY, INDETEL,  
WHICH  
SUPPLIES COMMUNICATIONS EQUIPMENT TO THE STATE ENTERPRISE TELEFONOS DE

MEXICO, WAS "MEXICANIZED" OCT. 16 WHEN ITT SOLD 11PCT OF INDETEL  
STOCK TO THE MEXICAN GOVERNMENT. MEXICO CITY NEWSPAPERS FRONTPAGED  
STORY FOLLOWING DAY. INDETEL NATIONALIZATION IS ONE MORE LINK IN CHAIN

OF MEXICAN SELF-SUFFICIENCY POLICY. GOM OFFICIALS INVOLVED DESCRIBED  
AGREEMENTS ON SALE AND CONTINUATION OF ITT TECHNOLOGICAL ASSISTANCE AS

MODEL FOR SIMILAR NATIONALIZATIONS PLANNED FOR THE FUTURE. END  
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SUMMARY.

2. THE MINISTRY OF NATIONAL PATRIMONY (READ NATIONAL PROPERTIES) BOUGHT 200,000 SHARES OF STOCK FROM ITT THROUGH GOVERNMENT-OWNED HOLDING COMPANY, SOCIEDAD MEXICANA DE CREDITO INDUSTRIAL (SOMEX), RAISING COMBINED MEXICAN PRIVATE AND PUBLIC INTEREST IN INDETEL TO A CONTROLLING 51PCT. THUS 49PCT NOW REMAINS IN ITT'S HANDS VS. ITS FORMER 60PCT SHARE HELD SINCE 1968. THE NEW CONTROLLING 51PCT IS COMPRISED OF 28PCT GOVERNMENT STOCK (UP FROM 17PCT) AND AN UNCHANGED 23PCT IN MEXICAN PRIVATE STOCK. SINCE THIS NATIONAL CONTROLLING STOCK OF 51PCT IS THE ONLY EFFECTIVE VOTING BLOC, AND SINCE GOM NOW HAS 5PCT MORE SHARES WITHIN THAT BLOCK THAN DO PRIVATE INTERESTS, GOM HAS NOW GAINED

EFFECTIVE CONTROL OF INDETEL. CASH VALUE OF STOCKS AT CURRENT MARKET PRICES IS YET TO BE NEGOTIATED BETWEEN ITT AND SOMEX. PRESENT CAPITAL OF INDETEL IS 16 MILLION DOLLARS.

3. PRESS REPORTS, TRANSACTION TOOK PLACE IN PRESIDENT ECHEVERRIA'S OFFICE WHEN ITT WORLD VICE PRESIDENT JOHN W. GUILFOYLE PRESENTED ECHEVERRIA WITH SIGNED TRANSFER AGREEMENT BETWEEN ITT'S INTERNATIONAL STANDARD ELECTRIC COMPANY AND SOMEX. AGREEMENT IS EFFECTIVE IMMEDIATELY. WITNESSES WERE SOMEX DIRECTOR GENERAL, JULIO SANCHEZ VARGAS; SECRETARY OF NATIONAL PATRIMONY, HORACIO FLORES DE LA PENA; AND SECRETARY OF COMMUNICATIONS, EUGENIO MENDEZ DOCURRO.

4. THREE OFFICIALS, GUILFOYLE, FLORES DE LA PENA, AND MENDEZ DOCURRO COMMENTED ON THE UNIQUENESS OF NATIONALIZATION WITHIN ITT, WHERE A BRANCH OF THE MULTINATIONAL FIRM AGREED TO SELL STOCK MAJORITY TO FOREIGN GOVERNMENT. (EMBOFF NOTES UNIQUENESS LASTED ONE DAY SINCE ARGENTINA ANNOUNCED NATIONALIZATION OF ITT'S STANDARD ELECTRIC SUBSIDIARY THE FOLLOWING DAY, OCT. 17). FLORES DE LA PENA AND SANCHEZ VARGAS EXPRESS EXPECTATIONS INDETEL CAPITAL WILL BE DOUBLED, AND EXPORTS WILL INCREASE 40PCT BY 1975 WITH HELP OF NEW PLANT UNDER CONSTRUCTION AT CUAUTITLAN, STATE OF MEXICO.

5. PRESS QUOTED GUILFOYLE EXPRESSING SATISFACTION IN REACHING "JUST SOLUTION" AS WELL AS CONFIDENCE IN FUTURE SUCCESS OF INDETEL IN ACHIEVING DEVELOPMENT GOALS. HE SAID ITT WILL CONTINUE SUPPLYING ALL LIMITED OFFICIAL USE

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REQUIRED TECHNOLOGY AND OPERATIONAL ASSISTANCE FOR FUTURE PROGRAMS. HE ADDED THE AGREEMENT ON TECHNOLOGY PIONEERS NEW IDEAS AND NO DOUBT WILL BE MODEL FOR FUTURE AGREEMENTS BETWEEN MEXICANS AND FOREIGN MANUFACTURERS OF HIGH TECHNOLOGY EQUIPMENT OF GREAT COMPLEXITY. HE NOTED PARENTHETICALLY THAT INDETEL'S ADMINISTRATIVE COUNCIL(WHICH WILL CONTINUE TO MANAGE FIRM)

AND MANAGEMENT ARE ALMOST ALL MEXICANS, AS ARE FIRMS 3,000 OTHER EMPLOYEES.

6. FLORES DE LA PENA EXPRESSED HIS USUAL STRONG NATIONALISTIC SENTIMENTS, ASSURING GOM WISHES TO CONTINUE TO "MEXICANIZE" FIRMS FORMERLY UNDER EXCLUSIVE CONTROL OF FOREIGN INTERESTS. HE ADDED AGREEMENT WAS SIMPLY CONTINUATION OF A POLICY INITIATED LONG AGO WITH ANACONDA. HE IS QUOTED "I BELIEVE THE IMPLICATIONS ARE OBVIOUS". HE ADDED INDETEL'S NATIONALIZATION IS VERY REAL, WITH MEXICAN ADVISORS AND MANAGERS NOW IN CONTROL.

7. SANCHEZ VARGAS CHARACTERIZED ITT/SOMEX NEGOTIATIONS LEADING TO SALE AS ALWAYS CORDIAL AND COOPERATIVE. HE SAID SOMEX WILL SUPERVISE FINANCIAL OPERATIONS, AND NATIONAL PATRIMONY WILL BE RESPONSIBLE FOR ITT'S "GOOD BEHAVIOR".

SANCHEZ

VARGAS ADDED THAT VALUE OF THE TRANSFERRED STOCKS WILL BE ARRANGED THROUGH NATIONAL STOCKS COMMISSION (MEXICO'S SEC). STOCKS WERE ACQUIRED THROUGH MEXICAN BROKERAGE HOUSE FIRMS.

8. MENDEZ DOCURRO ECHOED THAT AGREEMENT IS UNUSUAL BUT IS DUE TO WELL-RECOGNIZED POSITION OF MEXICAN GOVERNMENT AND IS TRIBUTE TO SOLIDITY OF MEXICO'S INSTITUTIONS. HE SAID THE MANNER IN WHICH AGREEMENT WAS REACHED GUARANTEES CONTINUED ITT TECHNOLOGICAL ASSISTANCE AT REASONABLE PRICES. HE NOTED THE ADVANTAGES OF "MEXICANIZATION" IS TIGHTENING ORIENTATION TO GOALS, AND SECURING SUPPLY, CONTINUITY AND GROWTH OF AN IMPORTANT SUPPLIER OF STATE-OWNED TELEPHONE COMPANY WITH ITS AMBITIOUS DEVELOPMENT PLANS. END UNCLASSIFIED.

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9. COMMENTS: (1) GOMCLAIM THAT SOMEX-ITT NEGOTIATIONS WERE FRIENDLY AND COOPERATIVE WAS ALSO MADE ON EVENING OCT. 16 BY SOMEX OFFICIAL (GARCIA TORRES) IN CONVERSATION WITH EMBOFF. GARCIA TORRES, WHILE AVOIDING BEING SPECIFIC, HINTED THAT OTHER NEGOTIATIONS WITH MULTINATIONALS ALSO UNDER WAY, AND THAT TREND SET BY ANACONDA-CANANEA, TABAMEX, AND TELEFONOS DE MEXICO (MEXICO A-352 OF 7/9/73) COULD BE EXPECTED TO CONTINUE; (2) EMBASSY COMMERCIAL OFFICER NOTES THAT OVER PAST YEAR OVERTURES TO TELEFONOS DE MEXICO (BOARD OF DIRECTORS IS HEADED BY FLORES DE LA PENA) ON BEHALF POTENTIAL US SUPPLIERS WERE GIVEN NO ENCOURAGEMENT. WITH INDETEL, A PRINCIPAL SUPPLIER, NOW IN GOM HANDS, THIS SITUATION CAN BE EXPECTED TO CONTINUE. IN FACT, A TREND TOWARD DISCOURAGING FOREIGN COMPETITION IN SIMILAR CASES MAY BE MORE EVIDENT IN FUTURE, ESPECIALLY WHERE SUBSTANTIAL GOM INVOLVEMENT IN OR CONTROL OF

COMPETING DOMESTIC FIRMS IS CONCERNED; (3) ONLY ONE  
MEXICAN NEWSPAPER OF THOSE REVIEWED REFERRED TO THE HOARY  
ACCUSATIONS OF ITT PARTICIPATION IN ALLENDE'S DOWNFALL.  
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## Message Attributes

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